Message From State Controller
Kathleen Connell

I am pleased to present the Summer 2000 edition of the *Controller's Quarterly* focused on the need for comprehensive planning for a secure retirement. One of the most important financial activities for all Californians is to plan for a secure retirement. Although 75% of the population is currently saving for retirement, many savers are not properly informed regarding their retirement funding requirements. This *Quarterly* examines the current status of individual retirement funding and its connection to seniors' lifestyles.

California's economy continues to boom with record low unemployment levels and astounding increases in personal income. As California's Chief Financial Officer, I urge all Californians to take advantage of these prosperous times to better prepare financially for their retirement. This edition begins by examining the current state of retirement funding. The roles of the social security system, 401K plans, and inheritances in individual retirement planning are then explored as well as the reasons motivating retirement planning.

The startling demographic trends of the baby boom generation drive the need for retirement savings. The over 65 age group will grow from its current population of over 3.5 million to nearly 9 million by 2030. This explosion in the retirement age population will have disastrous effects on the government's finances unless that population is financially prepared for retirement.

The current state of people's attitudes about their retirement preparation is reflected in data from the nation's most comprehensive retirement confidence survey. The survey's findings show that, although more people are saving for retirement than ten years ago, many people remain ignorant regarding their financial needs for retirement. Therefore, the "Ballpark Estimator" is included which will allow readers to compute their current retirement savings requirements.

Finally, retirement planning would not be complete without a clearer understanding of senior lifestyle issues. To set the context, senior long-term care needs are identified and personal narratives of two seniors are presented to showcase the diversity of senior lifestyles.

It is vital that the government actively educate residents regarding retirement planning to assure a comfortable retirement and to reduce potential burdens on future state resources. In order to be successful, however, government cannot address this burden alone. Instead, a unified effort by private sector, public sector and non-profit organizations is needed to provide all Californians with retirement information for a financially secure and personally rewarding retirement.

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KATHLEEN CONNELL
Controller
State of California

California Economy

Controller's Outlook for 2000

As the first half of year 2000 comes to a close, California's economic growth remains much stronger than we previously predicted. The principal economic sectors continue to expand despite a more docile stock market performance for the calendar year to date.

With consumer confidence about the U.S. economy now stabilizing, there is some evidence that higher interest rates are having a dampening effect on home buying. Home sales in April were off an estimated 12% from year ago levels, though the median selling price of homes has not retreated. Retail goods spending, and the development of new housing in California appears unaffected by the higher interest rate environment.

Job creation has actually accelerated in the state this year. More jobs translate into greater payrolls and that implies more personal income in California. More income adds to spending potential on retail goods and services, and new homes.

The rebound in exports to Asia, which have dramatically increased since the second half of 1999, is further benefiting the state's economy. Exports rebounded 5.0% in 1999, and rose 12% during the first three months of 2000.

Employment

State job growth jumped sharply in the first four months of 2000, rising 3.2% above year ago levels. With over 60,000 jobs created during the month of April, the state is on a pace to create 450,000 jobs in 2000. (Figure 1)

Employment growth, surprisingly, shows little evidence of slowing despite very tight labor market conditions and virtually no slack in the resident labor force. The unemployment rate fell to a record low of 4.7% in April.

Most of the new jobs in California this year continue to be created in the Business Services sector, which includes internet and information technology service firms. This year has also seen jobs in state government and local education created in prolific fashion.

Personal Income

Another year of double-digit stock market returns in 1999 resulted in large capital gains for California residents. Income from all assets, including financial assets, grew by over 6% in 1999. Though the Nasdaq suffered a 29% collapse between March 14 and April 14, 2000, there has been some recovery to date. Any material selling of stock or mutual fund portfolios would send capital gains income higher in 2000. Continued maintenance of portfolios will keep the market buoyant.

Personal income tax receipts, the largest single source of revenue to the California General Fund, jumped 10.6% for the fiscal year ending June 30, 1999. It appears that tax receipts for the current fiscal year will exceed 1999's record levels.

Taxable Sales

Fourth quarter 1999 sales were spectacular, rising 12.5% over year ago levels. That momentum has carried forward into 2000. First quarter consumer expenditures at the national level soared 8.3%. U.S. retail sales have jumped 10.3%. (Figure 2)

New Building

Despite the highest interest rates since 1995, new development continues to rise in California. Building permits for housing are 13% ahead of year ago levels. Multiple family homes (apartment units) are responsible for the surge in housing this year, now 42% ahead of last year's pace. Commercial and industrial building is up 3.1% over last year's development pace.

Regional Update

The Southern California region led the rest of the state in job creation during the first four months of 2000. The Inland Empire, comprised of Riverside and San Bernardino counties, is leading the entire state in job growth. The Sacramento Valley is producing jobs at a faster rate than any other area in Northern California.

Consumer spending has been slightly more prolific in the north than the south. With greater numbers of technology jobs created in the Bay Area, incomes have soared pushing retail goods spending to unprecedented levels.

Home sales are at record levels in Sacramento, and new housing permits are up 84% in Placer County and 81% in El Dorado County this year. Median selling prices for homes continue to move sharply higher, in both the Bay Area and Southern California. The highest home prices in the state are still in Marin, San Mateo, and Santa Clara counties.

Southern California

Employment gains remain impressive in Southern California. During the first four months of the year, the Riverside-San Bernardino labor market area created jobs at a 5.7% rate. In Los Angeles County, nonfarm job growth has accelerated, rising 2.3% over year ago totals. Both Orange and San Diego counties are creating jobs at a healthy 3.5% clip.

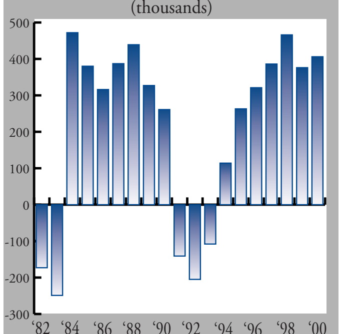
In 1999, the 7-County region (including Santa Barbara and Ventura) created 218,350 jobs. For the first four months in 2000, job creation has accelerated to an annual pace of 250,000 new jobs, a 3.2% rate of job growth.

New residential development is ahead 60% in Los Angeles County, 6% in Riverside-San Bernardino, and 10% overall in Southern California. Though total commercial and industrial development is only 1% ahead of last years pace, the level of nonresidential building last year was the highest of the decade. In Southern California this year, development of

Figure 1

Total Non-farm Jobs Created

(thousands)

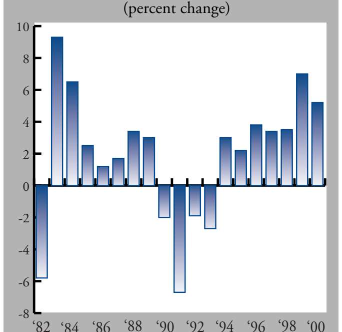


Source: Employment Developement Dept.

Figure 2

Real Taxable Retail Sales Growth Rate

(percent change)



Source: State Board of Equilization

office and retail store buildings is up 54% and 26%, respectively.

For the first quarter of 2000, home sales have advanced 6% in Los Angeles County, 9% in San Diego County, and 5% in Orange County. Median selling prices are up sharply in all areas, especially along the coast. Selling values for existing and new housing are at all-time record levels in all Southern California counties except Los Angeles.

Bay Area Economy

The unemployment rate dropped to 1.9% in the San Francisco-Marin-San Mateo labor market in February, the lowest rate in recorded history. In Santa Clara County, the rate of unemployment has remained at record level lows, estimated at 2.2% in February.

With the slowdown in new job creation in San Francisco and Santa Clara counties, job growth in the Bay Area now lags behind the other principal regions in California in job growth. Nevertheless, the 9-County Bay Area is on a pace to create nearly 100,000 new jobs in 2000, a 2.9% gain over total 1999 wage and salary employment.

Retail sales surged an unprecedented 13.6% in the final quarter of 1999 in the Bay Area, compared to 12.5% for all of California, and 11.6% for the U.S. as a whole. Consumer spending shows no evidence of a pull-back during the first quarter of 2000.

Though new housing permits are off sharply in San Francisco and Marin counties this year, new home building is up 167% in San Mateo County. New residential development is ahead 81% in Santa Clara County, and 46% in Alameda-Contra Costa counties. For the entire Bay Area region, new residential development has surged 17% this year.

This year median home selling prices have leaped nearly 30% in Marin and San Francisco counties, and 27% in Santa Clara County. (Figure 3) As of March 2000, Marin and San Mateo counties had the highest median selling prices for homes in the state, at $514,000 and $502,000, respectively.

Sacramento Region

The Sacramento region, comprised of Sacramento, El Dorado, Placer, Yolo, Yuba, and Sutter counties, was responsible for 783,000 workers in April. Job growth remains strong, rising 4.3% in the first trimester of 2000. The 6-County region leads both the 9-County Bay Area and the 7-County Southern California area in percentage growth of new jobs.

Building permits for new homes leaped 29% percent in the 6-County region during the first three months of 2000. Much of the new permit activity is in multiple family homes. In the Sacramento-El Dorado-Placer region, new residential building is up 46%.

Home prices remain relatively affordable in the region. In March, the median selling price of a home in Sacramento was $139,820, an increase of 8% over the March 1999 price level.

The General Outlook

The stock market correction in April, together with six interest rate hikes by the Federal Reserve in the last 12 months, is likely to slow the housing market further and begin to influence consumer spending in general.

A slowdown was forecast for the year 2000, and that slowdown will become more convincing in the second half of the calendar year. With the recent May 16 federal funds rate hike of 50 basis points by the Federal Reserve, the effect on consumer purchases of real estate and large ticket retail goods should become more noticeable by the summer months. The Federal Reserve also raised the discount rate 50 basis points to 6%.

Southern California will continue to produce the most jobs in the state this year, principally from hinterland regions surrounding Los Angeles County. Job growth is predicted to rise 3.0% in Southern California and 2.8% elsewhere in the state.

As a region, Southern California will lead the state in new residential development this year, with most of the new housing built in San Diego, Los Angeles, and Riverside counties. In the North, the Sacramento Valley, Bay Area region, and San Joaquin Valley will produce significantly more housing units this year than last.

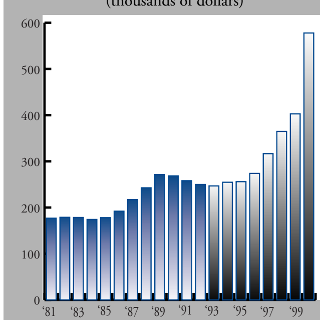
More commercial and industrial development will also occur in Southern California in 2000. New office space, desperately needed, will rise sharply in Santa Clara County and Orange County this year. There will also be a large increase in office, retail, and renovation activity in the San Joaquin Valley.

California's economy is poised to remain stronger than the rest of the nation because it is more concentrated in high technology, information, multimedia, biosciences, and internet development. The growth of these sectors dominated the creation of payroll and investment income in 1999, and that trend remains firmly in place through the first half of 2000.

Figure 3

Median Home Price– Santa Clara County

(thousands of dollars)



Source: CA Association of Realtors

2000 Forecast by Controller's Council of Economic Advisors

Council Member	Employment Growth (Annual %)	Unemployment (Annual %)	Personal Income Growth (Annual %)	Res. Building Permits (Thou)
Calif. Assn. of Realtors (G.U. Krueger)	3.0%	5.0%	6.2%	150
Center for Regional Economic Research (M. Schniepp)	3.0%	4.6%	6.6%	148
LA Co. Economic Development Corp. (J. Kyser)	3.2%	4.6%	7.3%	156
Milken Institute (R. DeVol)	2.8%	4.6%	7.1%	152
Munroe Consulting, Inc. (T. Munroe)	3.0%	4.6%	7.5%	148
UC Berkeley, Center for Real Estate & Urban Economics (C. Kroll)	2.7%	5.0%	6.5%	155
UCLA Anderson Forecast (T. Lieser)	3.5%	4.6%	7.6%	150
Mean	3.0%	4.7%	7.0%	151
Median	3.0%	4.6%	7.1%	150
State Controller	3.0%	4.6%	7.0%	150
1999 Actual*	2.8%	5.2%	6.7%	140

* "Actual" figures may vary from prior published figures to reflect new data that has become available.
Source: State Controller's Office; Council of Economic Advisors

The Importance of Retirement Planning in California

The largest age cohort in the nation's history is now between the ages of 36 and 54. In California, as in the rest of the nation, baby boomers are now the largest age group, the dominant participants in the labor force, and the most affluent generation, ever.

Under traditional behavioral patterns, retirement is only 11 years away for the leading edge of boomers. Reflecting on the upcoming retirement of the boomer generation raises a number of important questions.

(1) How large of a demographic impact on California is the retirement of the boomer generation likely to be?

(2) Are boomers ready for retirement — have they saved enough or started a serious retirement savings regimen that will adequately fund their retirement years?

(3) Is the generation that follows the boomers, the so-called "generation x," large enough to maintain the current social security system that will enable boomers to draw their maximum benefits?

A number of surveys by credible research institutes and organizations have been conducted recently that reveal current trends and beliefs among boomers regarding retirement. Some of the conclusions are alarming. They strongly suggest that current policies aimed at retirement saving, planning, and working during the traditional "retirement years" will be severely challenged over the next 20 years in California and the nation.

"…in the next 25 years… the 65 and over group will increase 106%, to 7.6 million people."

Current Demographic Trends

The nation's population is aging as the baby boomer cohort ages. Between 2000 and 2025, the fastest growing population segment in California will be the 65 and over age group. The entire population of the state is forecast to rise 21.4% in the next 25 years, but the 65 and over group will increase 106%, to 7.6 million people. (Figure 1)

Today the retirement eligible population represents 10.7% of the state's population. By 2025, that same group will comprise 16% of the population, the highest percentage of retirement age residents in California's history.

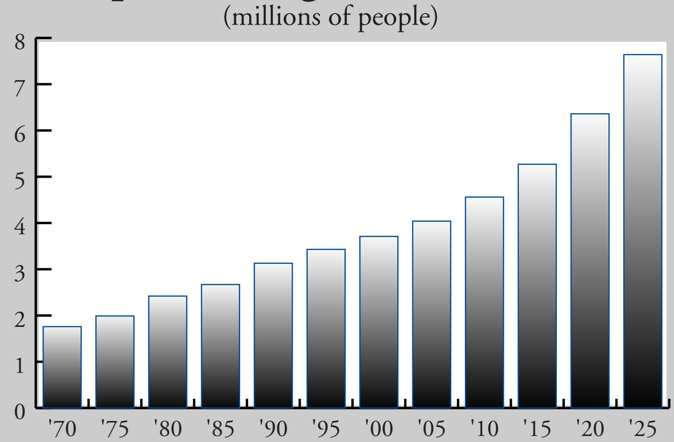
Furthermore, life expectancy, rising sharply since 1950, continues to increase. A man who reaches age 65 can expect to live another 16.3 years, on average. Women can expect 19.7 more years of life after reaching age 65.

Retirement planning becomes an important issue. If annual income stops or is significantly reduced upon retirement, will retirees have enough to finance their food, housing, and healthcare expenses for another 15 to 20 years?

Figure 1

Population Age 65 and Older

(millions of people)



Source: California Department of Finance

Implications of an Aging Population on the Workforce

Dramatic changes are forecast for the workforce of the 21st century. Current demographic trends suggest that the baby boom generation, 77.8 million members in the entire U.S., is being followed by generation X (born 1965-1976), an age group of only 50.0 million members. In California, there are an estimated 9.6 million boomers and 6.0 million Xers.

Will boomers have to work into their 60s, perhaps 70s, to finance their retirement? If not, they will be *asked* to work longer because they will be needed. Though generation X is still growing due to positive immigration, it will never challenge the boomer cohort in size.

The baby boom generation will be between the ages of 42 and 60 by 2006, dramatically increasing the numbers of "older workers." At the national level, we see the labor force continuing to age primarily due to increasing numbers of aging baby boomers (both men and women) remaining in the labor force.

Employers are just starting to realize that as the workforce matures and the boomer generation approaches retirement age, there will be a shortage of qualified younger workers to replace them. They need to recognize that older workers have an abundance of experience, knowledge, and expertise, and are a valuable resource to be utilized.

The largest gains in California's workforce are expected in (1) the 35-54 age group, increasing by 28%, and (2) those 55 and over, increasing by 53.2%. This is a reflection of both the aging baby boom generation, and the increasing numbers of the 55 and over population still needing to work.

Besides, at 55, men, on average, have 27 years more to live. Women are looking at 31 years. Half will live even longer than that. What will people do with all of that extra time? The current boomer response is to work. In fact, a recent U.S. Census Bureau report estimated that 85% of those 50 and over are willing to work part-time, temporary, interim, or contract employment.

According to the Census Bureau report, only 37% of current retirees report wanting to work because they need the money, suggesting that the psychological importance of work remains salient for older Americans. In addition, with the generation X cohort of Americans serving as an inadequate supply of labor, more and more employers will have to pursue mature Americans (i.e. retiring boomers) to fill their labor needs.

Are Boomers Ready for Retirement?

Although statistics and surveys clearly show that the majority of the population has been made better off during the current economic expansion, an alarming percentage of boomers do not consider themselves financially secure for retirement.

The amounts accumulated for retirement by workers as a whole are generally unimpressive. The 2000 Retirement Confidence Survey conducted in January and February of this year by the Employee Benefit Research Institute (EBRI) reports that 66% of boomers have accumulated less than $50,000 to date for retirement. In fact, 22% have saved virtually nothing, and only 21% of all workers have saved $100,000 or more. The median savings among 40-something households was $45,238, an amount not nearly enough for that stage in life.

There is some evidence that American workers may be unaware of their collective shortfall in retirement saving. According to the Retirement Confidence Survey, the proportion of respondents saying that they have personally saved for retirement has increased over time from 61% in 1994 to 76% in 2000 (Figure 2). Perhaps because of this greater participation in retirement savings, 79% of the respondents described themselves as "confident" or "somewhat confident" that they will have enough money to live comfortably in their retirement years.

However, based on a retirement readiness measurement by EBRI, only 43% appear to be doing a "very good" or "good" job preparing for retirement. The Retirement Readiness Rating indicates that more than half of workers are falsely confident about having enough money for retirement.

In a more recent survey of 1,500 randomly selected adults, conducted by Princeton Survey Research Associates in March 2000 for the April 4 edition of *Newsweek*, 74% of all respondents aged 35 to 54 indicated they were very concerned or somewhat concerned about "having enough money for retirement." In fact, for all age groups, including 18-34 as well as 55 and over, 40% of respondents said they were very concerned and 23% said they were somewhat concerned.

While 73% of boomers indicated they were saving for retirement, 63% said they were not saving enough. Even 57% of those individuals aged 55 and over indicated they were not saving enough for retirement.

The Consumer Federation of America evaluated 1998 Federal Reserve survey data on retirement savings of households in America. More than half of all households have saved less than they should for a comfortable retirement, and 59% of Americans expect their standard of living to diminish in old age. These results align with the Princeton Survey.

The major reason boomers say they have not saved adequately for retirement is their lack of income after expenses. The second most stated reason is, simply, procrastination (Figures 3 and 4).

Will 401(k) Plans Provide Enough Income at Retirement?

About 54% of American households have an employer-sponsored retirement plan through a current job or through a past job from which future retirement benefits are expected. Most of these plans are 401(k) or 403(b) plans. In nearly 83% of the plans, employers make contributions.

The median value increases with household annual income, education, and the age of the account holder. Most 401(k) benefits are invested in stocks and mutual funds, and balances have increased sharply in 1996, 1997, and 1998. According to the Consumer Federation Survey, the median value of employer-sponsored retirement accounts in 1998 was just $15,000.

To the degree that aggregate employer-sponsored retirement accounts (and any personal savings for that matter) are currently being driven by the bull market in equities, a sharp contraction in the equities market could have potentially drastic consequences.

How will individuals react with their spending and saving decisions if and when a significant market downturn occurs—especially one that lasts for an extended period of time? This is what's known to economists as the wealth effect. The likely outcome, in addition to the aggregate decline in value of one's 401(k) and/or retirement savings account, is a major pullback in both spending and future retirement saving. Employer-sponsored savings programs will remain in force. But if annual stock market yields collapse or simply return to normal levels of between 8% and 14% per year in 2000 and beyond (as they are expected to do), the growth rate of retirement accounts will slow considerably.

Will Social Security Save the Boomers?

The Social Security system is currently providing maximum benefits to persons aged 65 and over. Today's retirees rely on Social Security or employer provided pensions as their most important source of income in retirement.

However, the Social Security Commissioner concedes that there

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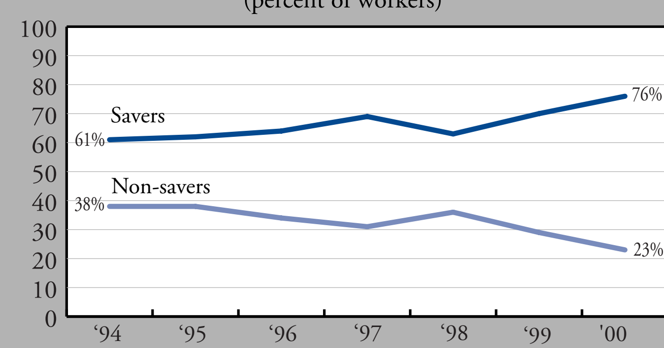
"...the median value of employer-sponsored retirement accounts in 1998 was just $15,000."

Figure 2

Savers vs. Non-savers, Among Workers

(percent of workers)



Source: EBRI RCS, 1994-2000

Clearly most households with working householders are now saving for retirement. However, the attendant evidence suggests that the majority of workers are simply assuming (or hoping) that they will accumulate enough. Given the upward trend in life expectancies of individuals, and the projections of future growth in these life expectancies, once they reach age 65, hoping and assuming likely will not be good enough in light of retirements that could well span decades.

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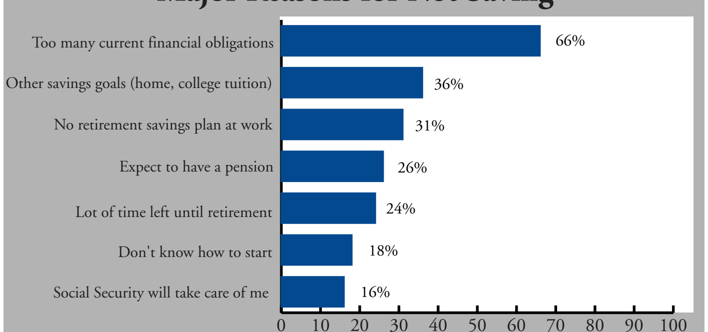
will not be enough proceeds to provide claimed benefits to retirees by 2034. Most boomers will be in the middle of their retirement years by then. Even well before that time, in 2014, Social Security pay-outs are expected to exceed collections, putting a strain on the trust fund that is now accumulating.

The Princeton survey results surprisingly reveal that 30% of boomers expect that *most or all* of their retirement income will have to come from Social Security benefits. Another 22% expect half of their income in retirement to be financed from the system.

Yet, curiously, 64% of boomers are not confident that the Social Security system will be able to provide them their income benefits. This, then, is the dilemma that Californians and all Americans face. There has not been enough saving and retirement planning among the baby boomer generation. A majority of boomers are relying on Social Security to provide them with at least half of their retirement income. Paradoxically, most boomers doubt that Social Security will be able to provide that income.

Figure 3

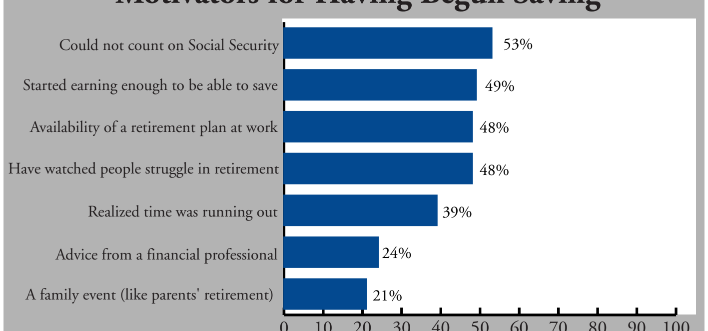
Major Reasons for Not Saving



Source: EBRI RCS (Retirement Confidence Survey 1999)

Figure 4

Motivators for Having Begun Saving



Source: EBRI RCS (Retirement Confidence Survey 1999)

Are boomers worried about this dilemma? The current survey evidence strongly suggests that the lack of retirement income is a serious problem for boomers.

Just over 48% of all boomers believe that having enough money to live comfortably in retirement is a "very serious problem" for them. Another 30% believe it is a "somewhat serious problem." Because of this, 33% of boomers feel their current lifestyle will deteriorate in retirement.

Can Boomers rely on inheritance wealth from their parents?

John Havens and Paul Schervish of the Social Welfare Research Institute at Boston College have estimated Americans' future estates. Between 1998 and 2017, they put the total between $11.6 trillion and $17.5 trillion.

It does not appear that the growth of estate value and inheritances over the next 20 years will alter the debate over Social Security, and/or bail out the ill-prepared boomers. Americans' wealth remains highly skewed, meaning a small minority has most of it. Under the lowest Havens-Schervish estimate, only about 7% of the 26 million estates would exceed $1 million. The average size of an estate under $1 million to be transferred through inheritance is estimated at $173,250. Consequently, even with record wealth transfers occurring over the next 20 years, few boomers are going to be able to abandon or alter their retirement savings plans.

The Princeton survey responses validate these research findings. Eighty percent of boomers do not believe that any inheritance they are likely to receive will factor into their retirement planning. Only 9% of boomers say that inheritance is a major reason why they have not saved enough for retirement.

What next then?

The Consumer Federation Analysis concludes that if all workers had access to a retirement plan at work, retirement savings would dramatically increase because payroll deductions are the easiest way to save. Furthermore, matching contributions made by employers provides a powerful incentive for workers to save.

In the absence of employer based retirement programs or personal initiative, legislative changes will be needed to create further incentives to save and/or disincentives to spend retirement account funds until actual retirement.

Harder line efforts by Congress or the State might also include considering laws that mandate minimum employer-paid retirement contributions, and/or older retirement ages.

Since boomers will be desperately needed in the labor force even after they retire, a simple solution is to encourage workers to continue to work in their retirement years. Not only will they be able to draw Social Security benefits, they will also be contributing to those payments by extending their earning years during retirement.

Boomers may not require much encouragement to remain in the labor force as they near their mid-60s. According to the Retirement Confidence Survey, nearly half of today's workers expect to retire at age 65 or later, a proportion that has seen little change since 1991 (45% in 1991; 47% in 2000). In contrast to these expectations, however, most retirees report actual retirement ages younger than age 65.

With the removal of mandatory retirement, an aging population, and the maintenance of higher levels of functioning into older age, a significant portion of older individuals will be ready, willing, and able to work. In fact, while older workers are leaving their career jobs (i.e., retiring) earlier than in the past, we are also seeing increasing rates of bridge employment and re-entry into the labor force among older individuals.

California's Aging Population: The Upcoming Retirement Boom

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Public Policy Institute of California

California's population, like that of the rest of the United States, is aging. The proportion of the state's population aged 65 and over increased from 9 % in 1970 to 11 % in 1998. But the big changes are still to come: the aging of the baby boom, the very large cohort of people born between 1946 and 1964, will lead to a dramatic increase in the state's older population. Today, the oldest baby boomers are 54 years old and the youngest are 36 years old. By 2020, the *youngest* baby boomers will be 56 years of age and one of every three Californians will be over the age of 50 (Figure 1). By 2030, all baby boomers will be at least 65 years of age, and the proportion of the state's population that is age 65 and over have increased to 17%. The total number of Californians over the age of 65 will have more than doubled from 1998 to 2030. Indeed, in the first decades of the 21st century, the fastest growing age groups in California will be those aged 50 and above.

Not only is the older population of the state growing faster than any other age group, the fastest growing segment of the state's older population is the very old: those aged 85 and over. Between 1970 and 2000, the population aged 85 and older have increased threefold (Table 1). Projections indicate that the 85 and older population will increase almost fourfold between 2000 and 2040. These changes reflect not only larger successive cohorts (due to past population growth), but also substantially lower mortality rates for the very old. The greatest increases in survival rates are expected to occur at very old ages. These projected improvements in survival rates are concentrated at older ages because there is little room for improvement at younger ages, and are based on continuations of past trends in improvement in survival rates occurring increasingly at older and older ages. The California Department of Finance projects life expectancies to increase from 77 years in 1998 to 82 years in 2040.

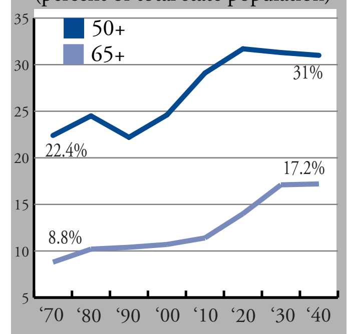
Despite California's aging population, the state has, overall, a relatively youthful population. In 1998, the median age in California was 33.3 years, compared to 35.2 years for the entire nation. Only three states (Utah, Alaska, and Texas) have younger populations, as measured by the median age, than California. This low median age can be attributed to California's relatively high birth rates and past migration patterns. In particular, during the 1990s international migration kept the state's population fairly young. International migrants are concentrated in young adult age groups. In 1996, about four in 10 foreign-born residents of California were between the ages of 18 and 34 (compared to only two in 10 U.S.-born residents of the state).

A convenient way to summarize temporal trends in the age structure of a population is to examine the dependency ratio, which is the number of people of non-working age (less than 18 and over 65) for every 100 people of working age. The dependency ratio provides a rough indicator of a population's ability to support non-working members. While California's dependency ratio is similar to that of the rest of the nation, the portion of the ratio attributable to children is higher in California and the portion due to the elderly is *lower*. In 1960, California had a very high dependency ratio, fueled by the large numbers of baby boomers who were less than 18 years of age at the time (Figure 2). By 1980, the dependency ratio declined substantially as baby boomers started aging out of the youngest age groups and were replaced by the smaller cohorts of the baby busters (the cohort of people born from the late 1960s through the 1970s). During the 1990s, dependency ratios in California have risen substantially as the larger baby boomlet cohorts (the children of baby boomers) replace the smaller baby buster cohorts. California's dependency ratio is projected to increase substantially after 2010 as large cohorts of baby boomers begin to enter retirement ages. The old-age dependency ratio is projected to more than triple between 2000 and 2030.

Increasingly, Californians will spend more and more of their lives in post-retirement activities. Working appears to be increasingly common among "retirees," a positive trend for the state's fiscal health. Quality of life, dependency and care issues, and state and family support for the elderly will become areas of increasing concern for governments and families as the number of older Californians more than doubles over the next 30 years. California's primary demographic challenge in the early 21st century will be to satisfy the demands of an increasingly older population in ways that assure quality of life for all Californians and financial stability for the State.

Figure 1

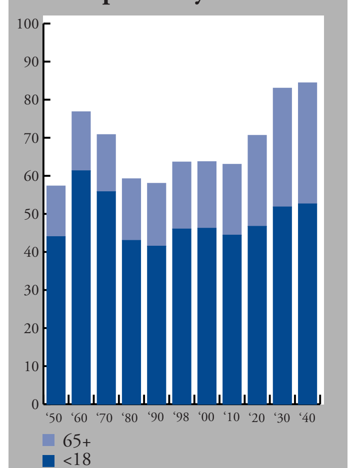
Older Population
(percent of total state population)



Source: California Department of Finance

Figure 2

Dependency Ratios



Source: California Department of Finance

Table 1

California's Older Population by Age Group, 1970-2040

Year	50-64	65-74	75-84	85+
1970	2,739,000	1,085,000	543,000	130,000
1980	3,400,000	1,474,000	727,000	218,000
1990	3,517,000	1,857,000	978,000	293,000
1998	4,388,000	1,947,000	1,238,000	411,000
2000	4,807,000	1,958,000	1,305,000	450,000
2010	7,060,000	2,494,000	1,423,000	638,000
2020	8,029,000	3,817,000	1,819,000	728,000
2030	7,378,000	4,901,000	2,918,000	1,033,000
2040	8,069,000	4,567,000	3,816,000	1,746,000

Percent Change by Decade and Age Group:

	50-64	65-74	75-84	85+
'70-'80	24%	36%	34%	68%
'80-'90	3%	26%	35%	34%
'90-'00	25%	5%	27%	40%
'00-'10	10%	1%	5%	9%
'10-'20	47%	27%	9%	42%
'20-'30	14%	53%	28%	14%
'30-'40	-8%	28%	60%	42%

Source: California Department of Finance

Retirement Confidence

Employee Benefit Research Institute (EBRI)

American Savings Educational Council (ASEC)

Mathew Greenwald & Associates, Inc. (MGA)

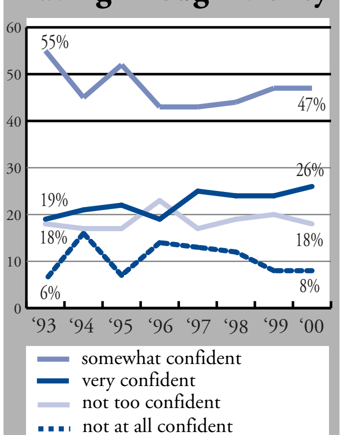
This year is the 10th anniversary of the Retirement Confidence Survey (RCS). Key questions have been used to track trends in retirement confidence and retirement planning behavior for much of the survey's 10 years, even though numerous changes have been made in the questionnaire. The picture revealed by these trends is generally optimistic—slight upswings in retirement confidence are backed by significant changes in retirement planning and saving activities.

This year's survey reveals that almost three in four workers are confident of having enough money to live comfortably throughout their retirement years. This is almost identical to the proportion of workers expressing confidence in 1993, the first year this question was asked. However, workers today are more likely to be very confident and less likely to be somewhat confident of having enough money (Figure 1). Still, two-thirds of those who are confident are somewhat confident rather than very confident—that is, they should have enough money to live comfortably in retirement if everything goes right.

> "Seven in 10 workers …have a savings or investing strategy for their retirement."

Figure 1

Worker Confidence: Having Enough Money



Source: EBRI, ASEC, MGA

The proportion of workers saying they are confident of having enough money to pay for medical expenses during retirement has increased from more than half in 1993 to seven in 10 in 2000. At the same time, the proportion saying they are confident of having enough money to take care of basic expenses remains relatively stable. In addition, the increase in the proportion of workers who are very confident in their overall retirement income prospects may be the result of positive changes in planning and saving behavior.

Confidence in Social Security and Medicare has fluctuated over time, reaching its lowest levels in 1995. Currently, 7% of workers are very confident that the Social Security system will continue to provide benefits of at least equal value to the benefits received by retirees today (up from 3% in 1995), and 21% are somewhat confident (up from 16%). Likewise, 6% are very confident (up from 3% in 1995) and 29% are somewhat confident (up from 18%) that the Medicare system will continue to provide benefits of at least equal value. The majority, however, are not confident that these programs will continue to provide benefits equivalent to today's (71% not confident in Social Security, 64% not confident in Medicare).

Preparing for Retirement

Workers increasing confidence about various financial aspects of their retirement may be the result of changes in the way they are preparing for it, as many American workers have become more proactive in their retirement planning and preparation.

Seven in 10 workers in the 2000 survey say they have a savings or investing strategy for their retirement, and four in 10 have thought about insurance coverage for long-term care or nursing home needs. Over half say that they personally have tried to calculate how much money they will need to have saved by the time they retire in order to live comfortably in retirement, a sharp increase over the percentage who reported having tried to do this calculation in the 1993 through 1997 surveys (Figure 2).

However, 28% of the 2000 survey respondents who tried to do a retirement needs calculation are unable to state the amount they will need to save. Fifteen percent calculate that they need to save less than $250,000, 9% figure they need to save between $250,000 and $499,999, and 12% figure between $500,000 and $999,999. Twenty-one percent say they need to save $1,000,000 or more.

The large amounts that need to be saved do not seem to discourage workers about their retirement prospects. In fact, those who report they or their spouse have done a retirement needs calculation are more likely than those who have not to feel confident about having enough money for retirement.

In addition, 61% of those who have done a needs calculation (See Ballpark Estimate page 10) say they are either ahead of schedule or on track when it comes to planning and saving for retirement, while 68% of those who have not done this calculation feel they are behind schedule.

In this year's survey, 51% of those who have attempted to do the calculation say that they have made changes in their retirement planning as a result. Among them, 54% say they have started to save more, and 26% have changed the allocation of their money. Smaller percentages have made other changes.

Saving and Not Saving for Retirement

The proportion of respondents saying that they have personally saved for retirement has increased from almost two-thirds in 1994 to three-fourths in 2000. A slightly larger proportion (80% in 2000) indicate that they or their spouse have saved for retirement.

However, the amounts accumulated for retirement by workers as a whole are generally unimpressive. The majority of those who are able to provide an amount have accumulated less than $50,000 and almost one-fourth of all workers have saved less than $10,000 toward retirement. While respondents age 35 and over have generally accumulated more than younger respondents, just one-fourth of those age 35 and over report having saved at least $100,000 for retirement (24% of those ages 35–44; 27% of those ages 45–54; and 25% of those ages 55 and over).

Respondents reporting that they or their spouse have done a needs calculation are not only more likely than those who have not to be saving for retirement (88% versus 61%), but they also tend to have accumulated larger amounts (Table 1).

Fifty-one percent of workers who are not currently saving for retirement say that it is reasonably possible for them to save $20 per week for retirement. Of workers who are already saving, 69% report that it is possible for them to save an additional $20 per week. Among those who say they could save this $20 per week, 19% say they would not have to give up anything to do so. Those who would have to sacrifice are most likely to say they would cut back on dining out or entertainment. Even at conservative rates of return, saving $20 per week can compound to a significant nest egg over time.

Worker Expectations

Many of today's workers will not be eligible to receive full benefits from Social Security until age 67, but most continue to be unaware of this phased increase in the Social Security normal retirement age from 65 to 67. More than half expect to reach full eligibility sooner than they actually will (55%). Many of these incorrectly expect to be eligible for full retirement benefits at age 65 (32% of all workers), but some believe they will be eligible even before age 65 (22% of all workers). Almost 17% say they do not know when they will be eligible to receive full benefits from Social Security.

Many workers—particularly those who plan to work the longest and, therefore, may be more at risk for an unplanned early retirement—may be preparing for an unrealistically short retirement. Half of men reaching age 65 can expect to be alive at 82, and some will make it to 100 and older, while half of women reaching age 65 can expect to be alive at 86, and some will make it to 100 and older. Yet 18% of workers expect that their retirement will last for 10 years or less, and an additional 15% believe their retirement will last 11–19 years. Twenty-five percent think their retirement will last 20–24 years, 9% believe it will last 25–29 years, and 19% expect it to last 30 years or more. Sixteen percent are unable to say how long they expect to be retired.

Today's retirees are most likely to rely on Social Security or employer-provided money as their most important source of income in retirement. Just two in ten find that their personal savings are their most important source of income. In contrast, more than half of current workers expect personal savings to be their most important source of income in retirement. Only two in 10 workers expect to rely most on employer-provided money, and only one in 10 expects Social Security will provide their most important source of income. This strongly suggests most Americans lack a clear understanding of retirement income needs. This misunderstanding may be mitigated by the annual mailing of Social Security benefit statements, which began in 1999.

Expected reliance on personal savings as the most important source of income increases as age decreases, while expected reliance on Social Security increases as age increases. In comparison with the youngest retirees' actual reported experience, current workers age 55 and over are more likely to anticipate that Social Security will be their most important source of income (28% versus 16%) and less likely to cite money from an employer-funded retirement plan (21% versus 39%). As the population ages, reality sinks in.

Conclusion

This year's retirement survey has generally resulted in positive trends. The proportion of workers who are very confident of having enough money to live comfortably throughout their retirement years has increased slightly, from 19% in 1993 to 26% in 2000. Larger increases are found among those who are very or somewhat confident that they are doing a good job of preparing for retirement, and among those who are very or somewhat confident in having enough money to pay for medical expenses during retirement. Workers are also more likely than in previous years to be saving for retirement and to have calculated how much money they will need to have saved by the time they retire.

However, other findings weaken these positive trends. Amounts workers have accumulated for retirement are generally low, and many people appear to be falsely confident about retirement security. Workers retirement planning may also be inadequate because they hold false expectations about the age at which they will be eligible for full Social Security retirement benefits, the age they will retire, the length of their retirement, and the sources of their retirement income.

The survey's results present a clear policy message: More and better education programs should be part of any long-term efforts focused on improving the retirement income security prospects of American workers. Furthermore, education about plan sponsorship options and benefits is every bit as important for potential plan sponsors.

Table 1

Amount Accumulated for Retirement by Workers: 2000

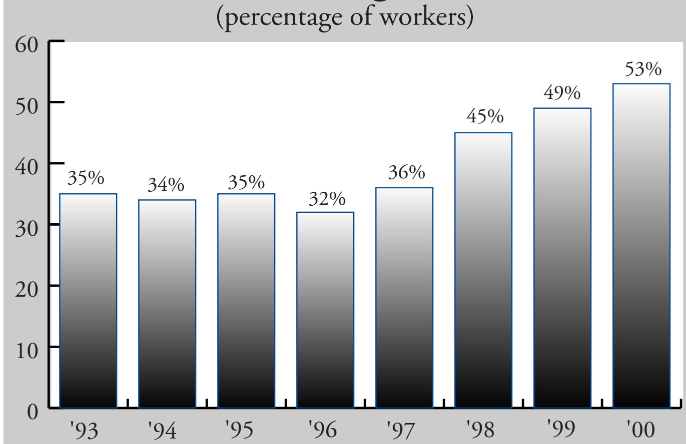
	All workers	Done-Needs Calculation	Not Done-Needs Calculation
Nothing	10%	1%	22%
Less than $5,000	5%	4%	6%
$5,000-$9,999	7%	5%	9%
$10,000-$24,999	10%	8%	12%
$25,000-$49,000	9%	8%	10%
$50,000-$99,999	14%	17%	10%
$100,00 +	21%	31%	8%
Don't Know/Refused	25%	25%	22%

Source: EBRI, ASEC, MGA

Figure 2

Workers Calculating for Retirement

(percentage of workers)



Source: EBRI, ASEC, MGA

The Ballpark Estimate® Worksheet

Planning for retirement is not a one-size-fits-all exercise. The purpose of Ballpark is simply to give you a basic idea of the savings you'll need when you retire. ***So let's play ball!***

If you are married, you and your spouse should each fill out your own Ballpark Estimate Worksheet taking your marital status into account when entering your Social Security benefit in number 2 below.

1. How much annual income will you want in retirement? (Figure 70% of your current annual gross income just to maintain your current standard of living. Really.) $ ________
2. Subtract the income you expect to receive annually from:
   - Social Security—If you make under $25,000, enter $8,000; between $25,000 - $40,000, enter $12,000; over $40,000, enter $14,500 (For married couples - the lower earning spouse should enter either their own benefit based on their income or 50% of the higher earning spouse's benefit, whichever is higher) -$ ________
   - Traditional Employer Pension – a plan that pays a set dollar amount for life, where the dollar amount depends on salary and years of service (in today's dollars) -$ ________
   - Part-time income -$ ________
   - Other -$ ________

This is how much you need to make up for each retirement year: =$ ________

Now you want a ballpark estimate of how much money you'll need in the bank the day you retire. So the accountants went to work and devised this simple formula. For the record, they figure you'll realize a constant real rate of return of 3% after inflation, you'll live to age 87, and you'll begin to receive income from Social Security at age 65.

3. To determine the amount you'll need to save, multiply the amount you need to make up by the factor below.

Age you expect to retire:		**Your factor is:**
	55	21.0
	60	18.9
	65	16.4
	70	13.6

$ ________

4. If you expect to retire before age 65, multiply your Social Security benefit from line 2 by the factor below.

Age you expect to retire:		**Your factor is:**
	55	8.8
	60	4.7

+$ ________

5. Multiply your savings to date by the factor below (include money accumulated in a 401(k), IRA, or similar retirement plan).

If you want to retire in:		**Your factor is:**
	10 years	1.3
	15 years	1.6
	20 years	1.8
	25 years	2.1
	30 years	2.4
	35 years	2.8
	40 years	3.3

-$ ________

Total additional savings needed at retirement: =$ ________

Don't panic. Those same accountants devised another formula to show you how much to save each year in order to reach your goal amount. They factor in compounding. That's where your money not only makes interest, your interest starts making interest as well, creating a snowball effect.

6. To determine the ANNUAL amount you'll need to save, multiply the TOTAL amount by the factor below.

If you want to retire in:		**Your factor is:**
	10 years	.085
	15 years	.052
	20 years	.036
	25 years	.027
	30 years	.020
	35 years	.016
	40 years	.013

=$ ________

See? It's not impossible or even particularly painful. It just takes planning. And the sooner you start, the better off you'll be.

ASEC
American Savings Education Council®

This worksheet simplifies several retirement planning issues such as projected Social Security benefits and earnings assumptions on savings. It also reflects today's dollars; therefore you will need to re-calculate your retirement needs annually and as your salary and circumstances change. You may want to consider doing further analysis, either by yourself using a more detailed worksheet or computer software or with the assistance of a financial professional.

Today's Senior: A Vital Social, Economic, Moral, and Humane Force

Assemblywoman Elaine Alquist
Chair of the Assembly Aging and Long-term Care Committee

"Frail," "disoriented," "slow," "cranky," "wrinkled," and "obsolete." The only things that should be obsolete are terms that turn seniors into caricatures. These stereotypical images breed miscommunication, misunderstanding, and prejudice. As a result, barriers are erected, placing older Americans into a separate class. These are walls that block real understanding and thus impede progress. We should recognize the contributions of our seniors and tear down the walls of myth and misperception.

"Power"– not weakness, "creativity" – not mindlessness, "energy" – not lethargy, "progress" – not obsolescence, yes, even "romance" can accurately be part of the lingo used when referring to seniors. Doing so is all part of the process of breaking down old and irrelevant stereotypes.

Seniors have added to our diversity — older Americans have raised our families, strengthened our economy, defended our nation, and reaffirmed our deepest values. For this, we owe them a profound debt of gratitude.

As chair of the *Assembly Aging and Long-Term Care Committee,* and as a daughter and wife, I know that many seniors thrive and continue to significantly contribute to our society. Quite simply, the stereotypes must stop! Seniors have been, are, and will be a vital force in our culture as they shape many of our values. As a "senior in training", I intend to continue my public endeavors well into my retirement years, and refuse to fade into the woodwork. We are equipped to talk about seniors only when we get the terms straight and offer them respect, not condescension or ridicule. It is only at this point that we have earned this right.

As a nation we have taken substantive measures to overcome these barriers and recognize and meet the needs of our aging population. In my lifetime, I have seen the creation of Social Security, Medicare, The Older Americans Act, and an Administration on Aging. I have witnessed seniors participating in sports and shaping the tastes of entertainment. The growing political momentum of seniors has also impressed me. This is not a fluke. This is a representation of the almost 33 million older Americans in our country — that is roughly one in eight Americans and a number that will continue to grow as the baby boomers reach their senior years.

This growing number of seniors has presented government, at the national, state, and local level, with new challenges. Health care and long-term care, housing availability and affordability, educational opportunity, economic advancement and suitable employment, political representation, access to human and social services, architectural and transportation access –these are among the priorities that must be met for our seniors. In all these instances, particularly the job market, there must be an end to age discrimination — an unfair practice built on ignorance and prejudice.

A major issue affecting not only today's seniors but also the seniors of tomorrow is the purchasing of long-term care insurance. With nursing homes costing an average of $47,450 per year, the need for insurance against these high costs is greater than ever. Long-term care insurance is not something that one buys on the fly or after the fact — this requires a present investment for a future benefit. Long-term care insurance is growing in importance as the population continues to age, and individual lifespans increase.

AB 2281, authored by myself and sponsored by State Controller Kathleen Connell, would allow individuals to deduct from their California income tax the costs of their long-term care insurance premiums. The deduction would begin in 2002, at 25% of the premium cost, and be phased in over five years to a total deduction of 100% of the long-term care insurance premiums by the year 2007. Individuals who begin purchasing this insurance in 2007 would be able to deduct the entire cost of the yearly premiums.

This bill benefits everyone, but is targeted at young people. If a person were to purchase this insurance in his or her 30's at a $1,000 deduction per year, it would add up over an additional 40-50+ years. A young person could cumulatively deduct (save) $40,000 to $50,000 over 40 or 50 years.

Buying this insurance now can save your assets later. Your savings will not be depleted if and when it becomes necessary to take advantage of the increasingly expensive services of nursing home facilities. The bottom line is the purchase of long-term care insurance now will protect us physically, emotionally, and financially in the future. This should be part of everyone's prudent financial planning. All generations need to participate in purchasing long-term care insurance.

This idea has federal precedent in its corner. At the federal level, the Clinton Administration has included in its recent budget proposals, a $3,000 tax credit for people with long-term care needs or their caregivers.

We need to identify the problems faced by older citizens. After these have been identified, we need to strengthen services and provide opportunities to meet their special needs. As our population ages, the challenge is not only to extend the duration of life, but, equally important, to improve the quality of life for seniors, to add life to their lives. Remember, if we are not already seniors, we are "seniors in training."

"Long-term care insurance is growing in importance as the population continues to age, and individual lifespans increase."

Retirement Lifestyles—Creating New Images of Aging

By Irene Williams, LCSW
Founder
Agewell

"In some ways, the biggest challenges facing aging Americans will be psychological. America has always considered itself a young nation, a new society—not an old one. While we have created a wonderful new third of life for tens of millions of men and women, we have done a far less effective job of envisioning a new sense of purpose to go with it." (Ken Dychtwald)

"Lifestyles seem to be mostly attitudes and perspectives."

Sometimes lifestyles reflect gender or distinct age attributes. The two persons briefly described below show their unique appreciation of life, their work, and their missions.

Sol Londe, MD, a retired pediatrician, chose the right profession from the start. At 98, Sol Londe is purposeful in almost everything he does. His lifestyle is as active as it gets. He is a bellwether of clarity and simplicity. He talks directly even to a stranger. I took his picture recently for an article I would be writing about him, and as he posed he asked: "Is this what you want dear? What is your background? Have you met my wife, Jean? We'll be leading a workshop here. Why don't you come?"

Right away I knew I was talking to a person who could enjoy playful times as well as serious work on issues. I knew him from his reputation as a writer, a speaker, and a person seeking equity and solutions for persons not as fortunate as he. Later I learned that he and his wife were married 15 years ago on his 83rd birthday.

He is a proud man. Fit, moderate, and energetic. Optimism is a lifestyle for him. He is certainly not retired. He continues his life's work in his own way as only he can exercise his exceptional gifts.

In her book, *Number Our Days*, anthropologist Barbara Myerhoff refers to the women in a Jewish community who appear to see aging as a career; that is, as a lifestyle: as a "serious commitment to surviving, complete with standards of excellence, clear, public, long term goals whose attainment yielded community recognition and inner satisfaction."

Denain Keon, just turning 60, sees work as her anchor. She is a person who models patience, gentility, personal equanimity and joy. She calls herself a "rowdy old woman" because she has stood up against the most difficult of life trials. In January, 1998, she lost her job and her medical insurance due to corporate downsizing. She had a good salary as a specialist in planned giving, fundraising, and estate planning. Then, unemployed, she had nothing. How would she survive?

Depressed, stunned and rejected, she sought to improve her alternatives. Finally she pulled her resources together to start a new business, confident of the rapport and compassion she has for the "older children of the world...the seasoned and saged community" as she thinks of elders. Personal in home care with compassion and heart would become her new business venture which she named: "FIFTY Plus...Seasoned and Saged."

The plan was only half off the ground when she discovered a recurrence of Non-Hodgkin's Lymphoma, first occurring 25 years ago, then again in 1990. Now in 1998 it was back, this time, it was "in my face."

Is this a description of a retirement lifestyle? Yes, in a way it is. And the healthy part of coping with severe treatments was the cooperation with her physician and her anticipation of better things ahead. When she was desperately ill, she thought she would die for sure, but no, she said, "I'm afraid I'll miss out on something. Something good could be just around the corner."

And just around the corner on February 20, 2000, her oncologist reviewed the films of her CT scans...then gave Denain the good news: "There is no trace of the tumor anywhere...this is quite remarkable."

Denain came by today. Slowly, she is beginning to see her clients again.

We are all glad to see her back.

Lifestyles seem to be mostly attitudes and perspectives. Dr. Fries puts it this way in the forward to his book, *Aging Well*.

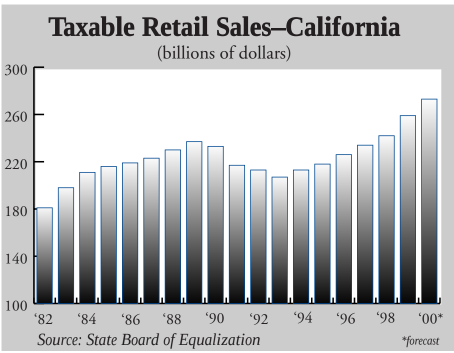
You can age well - with grace and wisdom, wit and experience, energy and vitality.... There is a successful strategy, but the particular plan and the specific goals must be your own. You need to be in control.

References:

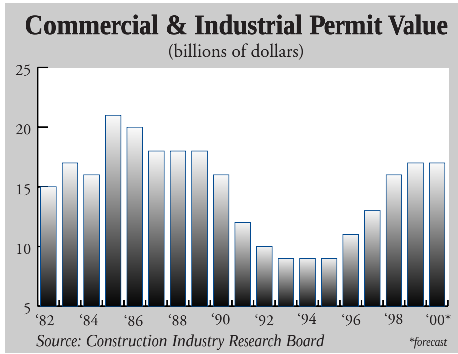
1. *Dychtwald, Ken, Age Power, Tarcher/Putnam, New York, 1999, p. 216.*
2. *Myerhoff, Barbara, Number Our Days, Simon and Schuster, New York, 1978, p.251.*
3. *Fries, James F., M.D., Aging Well: A Guide for Successful Seniors, Addison-Wesley Publishing, Reading, Ma.*

Facts and Figures

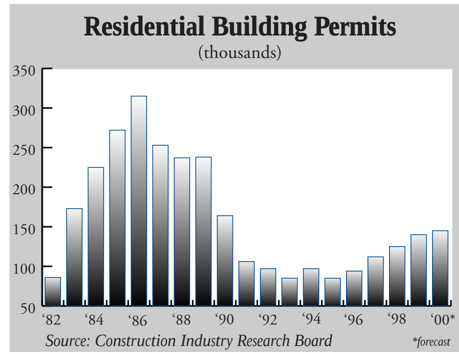
Important Information About California



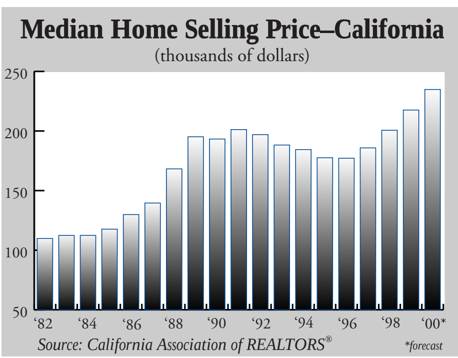
Taxable Retail Sales–California



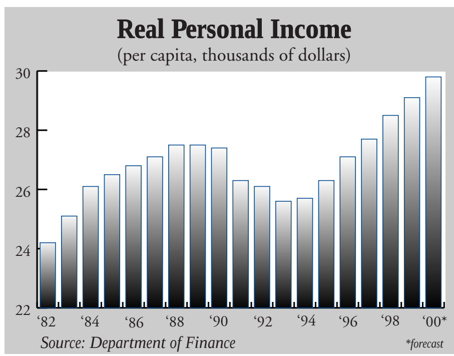
Commercial & Industrial Permit Value



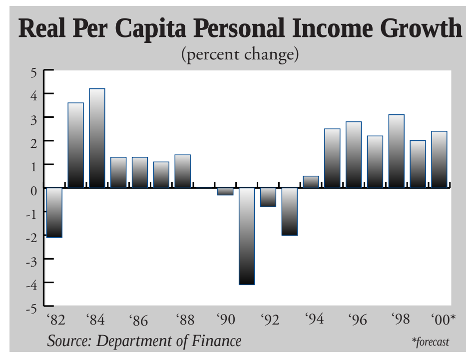
Residential Building Permits



Median Home Selling Price–California



Real Personal Income



Real Per Capita Personal Income Growth

Worker Confidence in Financial Aspects of Retirement

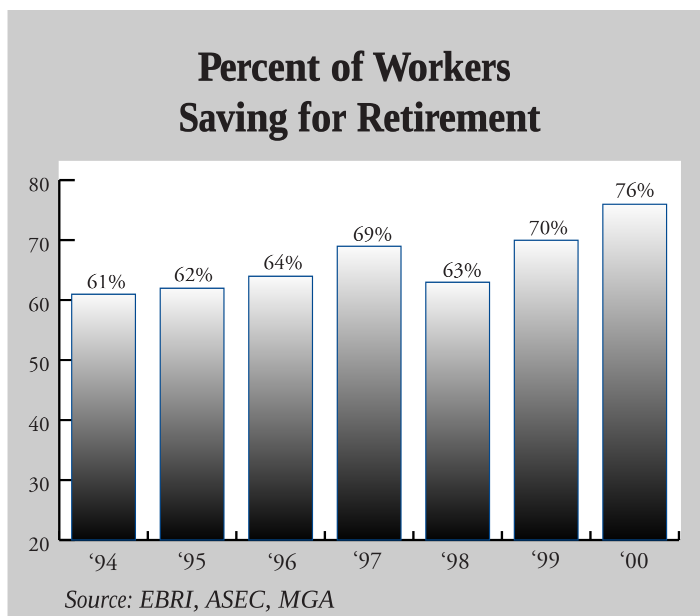
	Doing a Good Job Preparing Financially		Having Enough for Medical Expenses		Having Enough for Basic Expenses	
	1993	2000	1993	2000	1993	2000
Very Confident	23%	30%	22%	25%	40%	43%
Somewhat Confident	46%	49%	33%	44%	43%	43%
Not Too Confident	18%	13%	24%	19%	11%	8%
Not At All Confident	11%	8%	18%	12%	5%	6%

Source: EBRI, ASEC, MGA

Schedule for Planning & Saving for Retirement, 2000

	All Workers	Done Needs Calculation	Not Done Needs Calculation
A Lot Ahead of Schedule	3%	4%	2%
A Little Ahead of Schedule	4%	5%	2%
On Track	40%	51%	26%
A Little Behind Schedule	25%	23%	26%
A Lot Behind Schedule	27%	15%	41%

Source: EBRI, ASEC, MGA



Percent of Workers Saving for Retirement